



Cathay United Bank, Vientiane Capital Branch

Financial statements

31 December 2019

Cathay United Bank, Vientiane Capital Branch

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Cathay United Bank, Vientiane Capital Branch

GENERAL INFORMATION

THE BRANCH

Cathay United Bank, Vientiane Capital Branch (the "Branch") is a branch established in Lao People's Democratic Republic ("Lao PDR") of Cathay United Bank, a bank incorporated in Taiwan. The Branch operates under Banking License No. 38/BOL granted by Bank of the Lao PDR ("the BOL") on 25 November 2014.

The initial registered capital of the Branch is LAK 100,000,000,000. The actual paid-up capital as at 31 December 2019 is LAK 105,183,000,000 (equivalent to US Dollar 13,000,000 at the paid-up date).

The principal activities of the Branch are to provide comprehensive banking and related financial services.

The Branch is located at Hatsady Village, Unit 40, Khounboulom Road, Chanthabouly District, Vientiane Capital, and Lao PDR.

MANAGEMENT

Members of the Management during the year ended 31 December 2019 and at the date of this report are as follows:

<u>Name</u>	<u>Title</u>	<u>Date of appointment/resignation</u>
Mr. Chen Hai Ching	Branch Manager	Resigned on 26 August 2019
Mr. Tsai Tu Heng	Branch Manager	Appointed on 26 August 2019
Mr. Lin Ping Chi	Deputy Branch Manager	Appointed on 25 May 2018

LEGAL REPRESENTATIVE

The legal representative of the Branch from 1 January 2019 to 26 August 2019 is Mr. Chen Hai Ching – Branch Manager. The legal representative of the Branch from 26 August 2019 to the date of this report is Mr. Tsai Tu Heng – Branch Manager.

AUDITORS

The auditors of the Branch are Ernst & Young Lao Co., Ltd.



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6th floor, Kolao Tower I, 23 Singha Road
Nongbone Village, Saysettha District
Vientiane Capital, Lao P.D.R.

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Reference: 61157869/21506553-IFRS

INDEPENDENT AUDITORS' REPORT

To: The Owners of Cathay United Bank, Vientiane Capital Branch

Opinion

We have audited the financial statements of Cathay United Branch, Vientiane Capital Branch ("the Branch"), which comprise the statement of financial position as at 31 December 2019, the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Branch as at 31 December 2019, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Branch in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and the ethical requirements that are relevant to our audit of the financial statements in Lao PDR, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of the Branch's Management for the Financial Statements

The Branch's management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Ernst & Young Lao PDR



Vientiane, Lao PDR

6 March 2020

Cathay United Bank, Vientiane Capital Branch

INCOME STATEMENT
for the year ended 31 December 2019

	Notes	2019 LAKm	2018 LAKm
Interest revenue calculated using the effective interest method	8	46,615	55,771
Interest expense calculated using the effective interest method	9	(23,033)	(23,190)
Net interest and similar income		23,582	32,581
Fees and commission income	10	1,199	1,989
Fees and commission expenses	10	(172)	(145)
Net fees and commission income		1,027	1,844
Net gain from dealing in foreign currencies	11	453	488
Total operating income		25,062	34,913
Credit loss expense	12	(7,953)	(15,806)
NET OPERATING INCOME		17,109	19,107
Personnel expenses	13	(5,392)	(4,969)
Depreciation and amortization	18	(2,087)	(1,812)
Other operating expenses	14	(3,855)	(3,973)
TOTAL OPERATING EXPENSES		(11,334)	(10,754)
PROFIT BEFORE TAX		5,775	8,353
Profit tax expense	22	(4,505)	(5,165)
PROFIT FOR THE YEAR		1,270	3,188

Prepared by:



Ms. Bounphaphone Chounlamany
Accountant

Vientiane, Lao PDR

6 March 2020

Reviewed by:



Mr. Tsai Tu Heng
Branch Manager



Cathay United Bank, Vientiane Capital Branch

STATEMENT OF COMPREHENSIVE INCOME for the year ended 31 December 2019

Notes	2019 LAKm	2018 LAKm
PROFIT FOR THE YEAR	1,270	3,188
OTHER COMPREHENSIVE INCOME, NET OF TAX	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	1,270	3,188

Prepared by:



Ms. Bounphaphone Chounlamany
Accountant

Vientiane, Lao PDR

6 March 2020

Reviewed by:



Mr. Tsai Tu Heng
Branch Manager



Cathay United Bank, Vientiane Capital Branch

STATEMENT OF FINANCIAL POSITION as at 31 December 2019

	Notes	31 December 2019 LAKm	31 December 2018 LAKm
ASSETS			
Cash and balances with Bank of the Lao PDR	15	466,323	206,892
Due from banks	16	120,937	248,359
Loans to customers	17	435,025	474,474
Property, equipment and right-of-use assets	18	4,488	2,609
Other assets	19	4,143	3,234
TOTAL ASSETS		1,030,916	935,568
LIABILITIES			
Due to banks	20	890,238	782,229
Due to customers	21	18,200	20,165
Current tax liabilities	22.1	45	48
Other liabilities	23	2,752	1,126
TOTAL LIABILITIES		911,235	803,568
EQUITY			
Paid up capital	24	105,183	105,183
Statutory reserve		4,947	3,508
Retained earnings		9,551	23,309
TOTAL EQUITY		119,681	132,000
TOTAL LIABILITIES AND EQUITY		1,030,916	935,568

Prepared by:



Ms. Bounphaphone Chounlamany
Accountant

Reviewed by:



Mr. Tsai Tu Heng
Branch Manager

Vientiane, Lao PDR

6 March 2020



Cathay United Bank, Vientiane Capital Branch

STATEMENT OF CHANGES IN EQUITY for the year ended 31 December 2019

	<i>Paid-up capital LAKm</i>	<i>Statutory reserve LAKm</i>	<i>Retained earnings LAKm</i>	<i>Total LAKm</i>
Balance as at 1 January 2018	105,183	1,872	22,435	129,490
Net profit for the year	-	-	3,188	3,188
Transferred profit to Head Office	-	-	(619)	(619)
Withholding tax for transferred profit to Head Office	-	-	(62)	(62)
Statutory reserves	-	1,636	(1,636)	-
Others	-	-	3	3
Balance as at 31 December 2018	105,183	3,508	23,309	132,000
Balance as at 1 January 2019	105,183	3,508	23,309	132,000
Net profit for the year	-	-	1,270	1,270
Transferred profit to Head Office	-	-	(12,229)	(12,229)
Withhold tax for transferred profit to Head Office	-	-	(1,360)	(1,360)
Statutory reserves	-	1,439	(1,439)	-
Balance as at 31 December 2019	105,183	4,947	9,551	119,681

Prepared by:



Ms. Bounphaphone Chounlamany
Accountant

Vientiane, Lao PDR

6 March 2020

Reviewed by:



Mr. Tsai Tu Heng
Branch Manager



Cathay United Bank, Vientiane Capital Branch

STATEMENT OF CASH FLOWS
for the year ended 31 December 2019

	Notes	2019 LAKm	2018 LAKm
OPERATING ACTIVITIES			
Net profit before tax		5,775	8,353
<i>Adjustments for:</i>			
Depreciation and amortization charges	18	2,087	1,812
Credit loss expenses/(reverses)		7,953	(680)
Interest income	8	(46,615)	(55,771)
Interest expense	9	23,033	23,190
(Increase)/Decrease in operating assets			
Due from banks		(43,350)	(50,165)
Loans to customers		35,186	68,311
Other assets		(54)	3,148
Increase/(Decrease) in operating liabilities			
Due to customers		(1,966)	3,722
Other liabilities		1,623	(3,478)
Profit tax paid during the year	22.2	(5,359)	(3,775)
Interest paid		50,927	41,201
Interest received		(31,035)	(12,072)
Net cash flows (used in)/from operating activities		(1,795)	23,796
INVESTING ACTIVITIES			
Purchases of property and equipment and other intangible assets		(3,966)	(905)
Net cash flows used in investing activities		(3,966)	(905)
FINANCING ACTIVITIES			
Transfer profit to Head Office		(13,589)	(619)
Net cash flows used in financing activities		(13,589)	(619)
Net decrease in cash and cash equivalents		(19,350)	22,272
Cash and cash equivalents at the beginning of the year		49,788	27,516
Cash and cash equivalents at the end of the year	25	30,438	49,788

Prepared by:



Ms. Bounphaphone Chounlamany
Accountant

Vientiane, Lao PDR

6 March 2020

Reviewed by:



Mr. Tsai Tu Heng
Branch Manager



Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS
as at and for the year ended 31 December 2019

1. CORPORATE INFORMATION

Establishment and operations

Cathay United Bank, Vientiane Capital Branch (the "Branch") is a branch established in Lao People's Democratic Republic ("Lao PDR") of Cathay United Bank, a bank incorporated in Taiwan. The Branch operates under Banking License No. 38/BOL granted by Bank of the Lao PDR ("the BOL") on 25 November 2014.

The principal activities of the Branch are to provide comprehensive banking and related financial services.

Paid-up capital

The initial registered capital of the Branch is LAK 100,000,000,000. The actual paid-up capital as at 31 December 2019 is LAK 105,183,000,000 (equivalent to US Dollar 13,000,000 at the paid-up date).

Management

Members of the Management during the year ended 2019 and as at the date of this report are as follows:

<i>Name</i>	<i>Title</i>	<i>Date of appointment/resignation</i>
Mr. Chen Hai Ching	Branch Manager	Resigned on 26 August 2019
Mr. Tsai Tu Heng	Branch Manager	Appointed on 26 August 2019
Mr. Lin Ping Chi	Deputy Branch Manager	Appointed on 25 May 2018

Location

The Branch is located at Hatsady Village, Unit 40, Khounboulom Road, Chanthabouly District, Vientiane Capital, Lao PDR.

Employees

Total employees of the Branch as at 31 December 2019 were 17 people (2018: 19 people).

2. BASIS OF PREPARATION

The financial statements have been prepared on a historical cost basis, except as disclosed in other notes.

The Branch maintains its accounting records in Lao Kip ("LAK") which is the Branch's functional currency and presents its financial statements in millions of Lao Kip ("LAKm"). Except otherwise stated, financial information presented in LAK has been rounded to the nearest million.

The Branch's fiscal year starts on 1 January and ends on 31 December.

3. STATEMENT OF COMPLIANCE

The financial statements of the Branch have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the IASB.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

4. PRESENTATION OF FINANCIAL STATEMENTS

The Branch presents its statement of financial position in order of liquidity. Financial assets and financial liabilities are generally reported gross in the statement of financial position. They are only offset and reported net when, in addition to having an unconditional legally enforceable right to offset the recognized amounts without being contingent on a future event, the parties also intend to settle on a net basis in all of the following circumstances:

- ▶ The normal course of business
- ▶ The event of default
- ▶ The event of insolvency or bankruptcy of the Branch and/or its counterparties

5. CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES

In these financial statements, the Branch has applied IFRS 16 Leases for the first time. The nature and effect of the changes as a result of adoption of this new accounting standard are described in Note 5.1.1 below.

5.1.1 IFRS 16-Leases

IFRS 16 supersedes IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases-Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Branch adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. The Branch elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying the previous accounting policy at the date of initial application. The Branch also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The Branch has lease contracts for office building and car. Before the adoption of IFRS 16, the Branch classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Branch; otherwise it was classified as an operating lease. Upon adoption of IFRS 16, the Branch applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets.

The Branch recognised right-of-use assets and lease liabilities for those leases previously classified as finance lease or operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for most leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application. In some leases, the right-of-use assets were recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

5. CHANGE IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

5.1.1 IFRS 16-Leases (continued)

The Branch also applied the available practical expedients wherein it:

- ▶ Used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- ▶ Relied on its assessment of whether leases are onerous immediately before the date of initial application;
- ▶ Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application;
- ▶ Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- ▶ Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

6.1 Foreign currency translation

Transactions in foreign currencies are initially recorded at the spot rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated into LAK at the spot rate of exchange at the reporting date (see list of exchange rates of applicable foreign currencies against LAK on 31 December 2019 and 31 December 2018 as presented in Note 34). Unrealized exchange differences arising from the translation of monetary assets and liabilities on the balance date are recognized in the income statement.

6.2 Recognition of interest income

6.2.1 Effective Interest Rate method

Under IFRS 9, interest income is recorded using the EIR method for all financial assets measured at amortised cost. Interest expense is also calculated using the EIR method for all financial liabilities held at amortised cost. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial asset.

The EIR (and therefore, the amortised cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Branch recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the loan. Hence, the EIR calculation also takes into account the effect of potentially different interest rates that may be charged at various stages of the financial asset's expected life, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations of fixed rate financial assets' or liabilities' cash flows are revised for reasons other than credit risk, then changes to future contractual cash flows are discounted at the original EIR with a consequential adjustment to the carrying amount. The difference from the previous carrying amount is booked as a positive or negative adjustment to the carrying amount of the financial asset or liability on the balance sheet with a corresponding increase or decrease in *Interest revenue/expense calculated using the effective interest method*.

For floating-rate financial instruments, periodic re-estimation of cash flows to reflect the movements in the market rates of interest also alters the effective interest rate, but when instruments were initially recognised at an amount equal to the principal, re-estimating the future interest payments does not significantly affect the carrying amount of the asset or the liability.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.2 *Recognition of interest income (continued)*

6.2.2 *Interest and similar income/expense*

Net interest income comprises interest income and interest expense calculated using both the effective interest method and other methods. These are disclosed separately on the face of the income statement for both interest income and interest expense to provide symmetrical and comparable information.

In its *Interest income/expense calculated using the effective interest method*, the Branch only includes interest on those financial instruments that are set out in Note 6.2.1 above.

Other interest income/expense includes interest on derivatives and all financial assets/liabilities measured at FVPL, using the contractual interest rate.

Interest income/expense on all trading financial assets/liabilities is recognised as a part of the fair value change in *Net trading income*.

The Branch calculates interest income on financial assets, other than those considered credit-impaired, by applying the EIR to the gross carrying amount of the financial asset.

When a financial asset becomes credit-impaired (as set out in Note 6.12.1 and is therefore regarded as 'Stage 3', the Branch calculates interest income by applying the EIR to the net amortised cost of the financial asset. If the financial asset cures (as outlined in Note 6.12.1) and is no longer credit-impaired, the Branch reverts to calculating interest income on a gross basis.

6.3 *Fee and commission income*

The Branch earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognised at an amount that reflects the consideration to which the Branch expects to be entitled in exchange for providing the services.

The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. The Branch's revenue contracts do not typically include multiple performance obligations, as explained further in Note 6.3.1 and Note 6.3.2 below.

When the Branch provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time (unless otherwise specified in Note 6.3.1 and Note 6.3.2 below).

The Branch has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in Note 6.3.3.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.3 *Fee and commission income* (continued)

6.3.1 *Fee and commission income from services where performance obligations are satisfied over time*

Performance obligations satisfied over time include services where the customer simultaneously receives and consumes the benefits provided by the Branch's performance as the Branch performs.

The Branch's fee and commission income from services where performance obligations are satisfied over time include loan commitment fees: These are fixed annual fees paid by customers for loan and other credit facilities with the Branch, but where it is unlikely that a specific lending arrangement will be entered into with the customer and the loan commitment is not measured at fair value. The Branch promises to provide a loan facility for a specified period. As the benefit of the services is transferred to the customer evenly over the period of entitlement, the fees are recognised as revenue on a straight-line basis. Payment of the fees is due and received monthly in arrears.

6.3.2 *Fee and commission income from services where performance obligations are satisfied at a point in time*

Services provided where the Branch's performance obligations are satisfied at a point in time are recognised once control of the services is transferred to the customer. This is typically on completion of the underlying transaction or service or, for fees or components of fees that are linked to a certain performance, after fulfilling the corresponding performance criteria. These include fees and commissions arising from negotiating or participating in the negotiation of a transaction for a third party, such as the arrangement/participation or negotiation of the acquisition of shares or other securities, or the purchase or sale of businesses, brokerage and underwriting fees.

The Branch typically has a single performance obligation with respect to these services, which is to successfully complete the transaction specified in the contract.

6.3.3 *Contract balances*

The following are recognised in the statement of financial position arising from revenue from contracts with customers:

- ▶ 'Fees and commissions receivables' included under 'Other assets', which represent the Branch's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). These are measured at amortised cost and subject to the impairment provisions of IFRS 9.
- ▶ 'Unearned fees and commissions' included under 'Other liabilities', which represent the Branch's obligation to transfer services to a customer for which the Branch has received consideration (or an amount of consideration is due) from the customer. A liability for unearned fees and commissions is recognised when the payment is made or the payment is due (whichever is earlier). Unearned fees and commissions are recognised as revenue when (or as) the Branch performs.

6.4 *Net trading income*

Net trading income includes all gains and losses from changes in fair value and the related interest income or expense and dividends, for financial assets and financial liabilities held for trading (if any).

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.5 *Net loss on financial assets and liabilities designated at fair value through profit or loss*

Net loss on financial instruments at FVTPL represents financial assets and financial liabilities designated as at FVTPL, also non-trading assets measured at FVTPL, as required by or elected under IFRS 9. The line item includes fair value changes, interest, dividends and foreign exchange differences.

6.6 *Net loss on derecognition of financial assets measured at amortised cost or FVOCI*

Net loss on derecognition of financial assets measured at amortised cost includes loss (or income) recognised on sale or derecognition of financial assets measured at amortised costs calculated as the difference between the book value (including impairment) and the proceeds received.

6.7 *Financial instruments - initial recognition*

6.7.1 *Date of recognition*

Financial assets and liabilities, with the exception of loans to customers and balances due to customers, are initially recognized on the trade date, i.e., the date that the Branch becomes a party to the contractual provisions of the instrument. This includes "regular way trades" - purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Loans to customers are recognised when funds are transferred to the customers' account. The Branch recognises balances due to customers when funds are transferred to the Branch.

6.7.2 *Initial measurement of financial instruments*

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described in Notes 6.9.1.1 and Note 6.9.1.2. Financial instruments are initially measured at their fair value (as defined in Note 6.8), except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. Financial receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Branch account for the Day 1 profit or loss, as described below.

6.7.3 *Day 1 profit or loss*

When the transaction price of the instrument differs from the fair value at origination and the fair value is based on a valuation technique using only inputs observable in market transactions, the Branch recognises the difference between the transaction price and fair value in net trading income. In those cases where fair value is based on models for which some of the inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

6.7.4 *Measurement categories of financial assets and liabilities*

The Branch classifies all of its financial assets based on the business model for managing the assets and the asset's contractual terms, measured at either:

- Amortised cost, as explained in Note 6.9.1
- FVOCI, as explained in Note 6.9.2
- FVTPL, as explained in Note 6.9.4

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.7 *Financial instruments - initial recognition* (continued)

6.7.4 *Measurement categories of financial assets and liabilities* (continued)

The Branch may designate financial instruments at FVTPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies, as explained in Note 6.9.4.

Financial liabilities, other than loan commitments and financial guarantees, are measured at amortised cost or at FVTPL when they are held-for-trading and derivative instruments or the fair value designation is applied, as explained in Note 6.9.4.

6.8 *Determination of fair value*

In order to show how fair values have been derived, financial instruments are classified based on a hierarchy of valuation techniques, as summarised below:

- ▶ Level 1 financial instruments – Those where the inputs used in the valuation are unadjusted quoted prices from active markets for identical assets or liabilities that the Branch accesses to at the measurement date. The Branch considers markets as active only if there are sufficient trading activities with regards to the volume and liquidity of the identical assets or liabilities and when there are binding and exercisable price quotes available at the reporting date.
- ▶ Level 2 financial instruments – Those where the inputs that are used for valuation and are significant, are derived from directly or indirectly observable market data available over the entire period of the instrument's life. Such inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical instruments in inactive markets and observable inputs other than quoted prices such as interest rates and yield curves, implied volatilities, and credit spreads. In addition, adjustments may be required for the condition or location of the asset or the extent to which it relates to items that are comparable to the valued instrument. However, if such adjustments are based on unobservable inputs which are significant to the entire measurement, the Branch will classify the instruments as Level 3.
- ▶ Level 3 financial instruments – Those that include one or more unobservable input that is significant to the measurement as whole.

The Branch periodically reviews its valuation techniques including the adopted methodologies and model calibrations. However, the base models may not fully capture all factors relevant to the valuation of the Branch's financial instruments such as credit risk ("CVA"), own credit ("DVA") and/or funding costs ("FVA"). Therefore, the Branch's apply various techniques to estimate the credit risk associated with its financial instruments measured at fair value, which include a portfolio-based approach that estimates the expected net exposure per counterparty over the full lifetime of the individual assets, in order to reflect the credit risk of the individual counterparties for non-collateralised financial instruments. The Branch estimates the value of its own credit from market observable data, such as secondary prices for its traded debt and the credit spread on credit default swaps and traded debts by itself.

The Branch evaluates the levelling at each reporting period on an instrument-by-instrument basis and reclassify instruments when necessary based on the facts at the end of the reporting period.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.9 *Financial assets and liabilities*

6.9.1 *Due from banks, Loans to customers and other financial investments at amortised cost*

The Branch measures *Due from banks, Loans to customers* and other financial investments at amortised cost if both of the following conditions are met:

- ▶ The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows;
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The details of these conditions are outlined below.

6.9.1.1 *Business model assessment*

The Branch determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- ▶ The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed
- ▶ How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realised in a way that is different from the Branch's original expectations, the Branch does not change the classification of the remaining financial assets held in that business model, but incorporate such information when assessing newly originated or newly purchased financial assets going forward.

6.9.1.2 *The SPPI test*

As a second step of its classification process the Branch assesses the contractual terms of financial assets to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Branch applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.9 *Financial assets and liabilities* (continued)

6.9.2 *Debt instruments at FVOCI*

The Branch classifies debt instruments measured at FVOCI when both of the following conditions are met:

- ▶ The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets;
- ▶ The contractual terms of the financial asset meet the SPPI test.

FVOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and foreign exchange gains and losses are recognised in profit or loss in the same manner as for financial assets measured at amortised cost as explained in Note 6.2.2. The ECL calculation for Debt instruments at FVOCI is explained in Note 6.12.3 and recognised in "*Credit loss expense on financial assets*". Where the Branch holds more than one investment in the same security, they are deemed to be disposed of on a first-in first-out basis. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

6.9.3 *Debt issued and other borrowed funds*

After initial measurement, debt issued and other borrowed funds are subsequently measured at amortised cost. Amortised cost is calculated by taking into account any discount or premium on issued funds, and costs that are an integral part of the EIR.

6.9.4 *Financial assets and financial liabilities at fair value through profit or loss*

Financial assets and financial liabilities in this category are those that are not held for trading and have been either designated by management upon initial recognition or are mandatorily required to be measured at fair value under IFRS 9. Management only designates an instrument at FVPL upon initial recognition when one of the following criteria are met. Such designation is determined on an instrument-by-instrument basis:

- ▶ The designation eliminates, or significantly reduces, the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognising gains or losses on them on a different basis; or
- ▶ The liabilities are part of a group of financial liabilities, which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- ▶ The liabilities contain one or more embedded derivatives, unless they do not significantly modify the cash flows that would otherwise be required by the contract, or it is clear with little or no analysis when a similar instrument is first considered that separation of the embedded derivative(s) is prohibited.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.9 *Financial assets and liabilities* (continued)

6.9.4 *Financial assets and financial liabilities at fair value through profit or loss* (continued)

Financial assets and financial liabilities at FVPL are recorded in the statement of financial position at fair value. Changes in fair value are recorded in profit and loss with the exception of movements in fair value of liabilities designated at FVPL due to changes in the Branch's own credit risk. Such changes in fair value are recorded in the Own credit reserve through OCI and do not get recycled to the profit or loss. Interest earned or incurred on instruments designated at FVPL is accrued in interest income or interest expense, respectively, using the EIR, taking into account any discount/ premium and qualifying transaction costs being an integral part of instrument. Interest earned on assets mandatorily required to be measured at FVPL is recorded using contractual interest rate as explained in Note 6.2.2. Dividend income from equity instruments measured at FVPL is recorded in profit or loss as other operating income when the right to the payment has been established.

6.9.5 *Financial guarantees, letters of credit and undrawn loan commitments*

The Branch issues financial guarantees, letters of credit and loan commitments. Financial guarantees are initially recognised in the financial statements (within Provisions) at fair value, being the premium received. The premium received is recognised in the income statement in "*Net fee and commission income*" on a straight-line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Branch is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of financial position. The nominal values of these instruments together with the corresponding ECLs are disclosed in Note 28.

6.10 *Reclassification of financial assets and liabilities*

The Branch does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Branch acquires, disposes of, or terminates a business line. Financial liabilities are never reclassified.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.11. Derecognition of financial assets and financial liabilities

6.11.1. Derecognition due to substantial modification of terms and conditions

The Branch derecognises a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognised as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognised loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be POCI.

When assessing whether or not to derecognise a loan to a customer, amongst others, the Branch considers the following factors:

- ▶ Change in currency of the loan
- ▶ Introduction of an equity feature
- ▶ Change in counterparty
- ▶ If the modification is such that the instrument would no longer meet the SPPI criterion

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original EIR, the Branch records a modification gain or loss, to the extent that an impairment loss has not already been recorded.

6.11.2. Derecognition other than for substantial modification

6.11.2.1 Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the asset have expired. The Branch also derecognises the assets if they have both transferred the asset, and the transfer qualifies for derecognition.

The Branch has transferred the asset if, and only if, either:

- ▶ The Branch has transferred its contractual rights to receive cash flows from the asset; or
- ▶ It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement.

Pass-through arrangements are transactions when the Branch retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- ▶ The Branch has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances by the entity with the right of full recovery of the amount lent plus accrued interest at market rates;
- ▶ The Branch cannot sell or pledge the original asset other than as security to the eventual recipients for the obligation to pay them cash flows; and
- ▶ The Branch has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Branch are not entitled to reinvest such cash flows, except for investments in cash or cash equivalents during the short settlement period from the collection date to the date of required remittance to the eventual recipients, and interest earned on such investments is passed to the eventual recipients.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.11.2 *Derecognition other than for substantial modification* (continued)

6.11.2.1 *Financial assets* (continued)

A transfer only qualifies for derecognition if either:

- ▶ The Branch has transferred substantially all the risks and rewards of the asset; or
- ▶ The Branch has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Branch considers control to be transferred if, and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer.

When the Branch has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset continues to be recognised only to the extent of the Branch's continuing involvement, in which case, the Branch also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Branch has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Branch could be required to repay.

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Branch would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

6.11.2.2 *Financial liabilities*

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the statement of profit or loss.

6.12. *Impairment of financial assets*

6.12.1. *Overview of the ECL principles*

The Branch records the allowance for expected credit losses for all loans and other debt financial assets not held at FVTPL, together with loan commitments and financial guarantee contracts, in this section all referred to as 'financial instruments'. Equity instruments are not subject to impairment under IFRS 9.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss as outlined in Note 6.12.2. The Branch's policies for determining if there has been a significant increase in credit risk are set out in Note 28.

The 12-month ECL is the portion of life time ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.12. Impairment of financial assets (continued)

6.12.1. Overview of the ECL principles (continued)

Both life time ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Branch has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument. This is further explained in Note 28.

Based on the above process, the Branch groups its loans into Stage 1, Stage 2, Stage 3 and POCI, as described below:

- ▶ Stage 1 When loans are first recognised, the Branch recognises an allowance based on 12-month ECLs. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- ▶ Stage 2 When a loan has shown a significant increase in credit risk since origination, the Branch records an allowance for the life time ECLs. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- ▶ Stage 3 Loans considered credit-impaired (as outlined in Note 28). The Branch records an allowance for the life time ECLs.
- ▶ POCI Purchased or originated credit impaired ("POCI") assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at original recognition and interest income is subsequently recognised based on a credit-adjusted EIR. ECLs are only recognised or released to the extent that there is a subsequent change in the expected credit losses.

For financial assets for which the Branch has no reasonable expectations of recovering either the entire outstanding amount, or a proportion thereof, the gross carrying amount of the financial asset is reduced. This is considered a (partial) derecognition of the financial asset.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.12. Impairment of financial assets (continued)

6.12.2. The calculation of ECLs

The Branch calculates ECLs based on three probability-weighted scenarios to measure the expected cash shortfalls, discounted at an approximation to the EIR. A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the Branch expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

- ▶ **Probability of Default ("PD")** The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio. The concept of PDs is further explained in Note 28.
- ▶ **Exposure at Default ("EAD")** The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, whether scheduled by contract or otherwise, expected drawdowns on committed facilities, and accrued interest from missed payments. The EAD is further explained in Note 28.
- ▶ **Loss Given Default ("LGD")** The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The LGD is further explained in Note 28.

When estimating the ECLs, the Branch considers three scenarios (base case, upper, and downside). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how individually significant loans are expected to be recovered, including the probability that the loans will make repayment timely and the value of collateral or the amount that might be received for selling the asset.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying amount.

Allowance for ECLs for undrawn loan commitments are assessed.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.12. Impairment of financial assets (continued)

6.12.2. The calculation of ECLs (continued)

The mechanics of the ECL method are summarised below:

- ▶ Stage 1 The 12-month ECL is calculated as the portion of life time ECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Branch calculates the 12-month ECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by an approximation to the original EIR. This calculation is made for each of the three scenarios, as explained above.
- ▶ Stage 2 When a loan has shown a significant increase in credit risk since origination, the Branch record an allowance for the life time ECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by an approximation to the original EIR.
- ▶ Stage 3 For loans considered credit-impaired, the Branch recognise the lifetime expected credit losses for these loans. The method is similar to that for Stage 2 assets, with the PD set at 100%.
- ▶ POCI POCI assets are financial assets that are credit impaired on initial recognition. The Branch only recognise the cumulative changes in life time ECLs since initial recognition, based on a probability-weighting of the three scenarios, discounted by the credit adjusted EIR.
- ▶ Loan commitments and letter of credit When estimating life time ECLs for undrawn loan commitments, the Branch estimates the expected portion of the loan commitment that will be drawn down over its expected life. The ECL is then based on the present value of the expected shortfalls in cash flows if the loan is drawn down, based on a probability-weighting of the three scenarios. The expected cash shortfalls are discounted at an approximation to the expected EIR on the loan.

For loan commitments and letters of credit, the ECL is recognised within *Provision for off-balance sheet commitments* under "*Other liabilities*".
- ▶ Financial contracts The Branch's liability under each guarantee is measured at the higher of the amount initially recognised less cumulative amortization recognised in the income statement, and the ECL allowance. For this purpose, the Branch estimates ECLs based on the present value of the expected payments to reimburse the holder for a credit loss that it incurs. The shortfalls are discounted by the risk-adjusted interest rate relevant to the exposure. The calculation is made using a probability-weighting of the three scenarios. The ECLs related to financial guarantee contracts are recognised within *Provision for off-balance sheet commitments* under "*Other liabilities*".

6.12.3. Debt instruments measured at FVOCI

The ECLs for debt instruments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortised cost is recognised in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognised in OCI is recycled to the profit and loss upon derecognition of the assets.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.12. Impairment of financial assets (continued)

6.12.4. Purchased or originated credit impaired financial assets (POCI)

For POCI financial assets, the Branch only recognises the cumulative changes in life time ECL since initial recognition in the loss allowance.

6.12.5. Forward-looking information

In its ECL models, the Branch relies on a broad range of forward looking information as economic inputs, such as:

- ▶ GDP growth
- ▶ Unemployment rates
- ▶ Inflation
- ▶ House price indices

The inputs and models used for calculating ECLs may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

6.13. Credit enhancements: collateral valuation and financial guarantees

To mitigate its credit risks on financial assets, the Branch seeks to use collateral, where possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Branch's statement of financial position.

Cash flows expected from credit enhancements which are not required to be recognised separately by IFRS standards and which are considered integral to the contractual terms of a debt instrument which is subject to ECL, are included in the measurement of those ECL. On this basis, the fair value of collateral affects the calculation of ECLs. Collateral is generally assessed, at a minimum, at inception and re-assessed on a quarterly basis. However, some collateral, for example, cash or securities relating to margining requirements, is valued daily.

To the extent possible, the Branch uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as mortgage brokers, or based on housing price indices.

6.14. Collateral repossessed

The Branch's policy is to determine whether a repossessed asset can be best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset. Assets for which selling is determined to be a better option are transferred to assets held for sale at their fair value (if financial assets) and fair value less cost to sell for non-financial assets at the repossession date in, line with the Branch's policy.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.15 *Write-offs*

Financial assets are written off either partially or in their entirety only when the Branch has no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

6.16 *Cash and cash equivalents*

Cash and cash equivalents as referred to in the statement of cash flows comprise cash on hand, non-restricted current accounts with the BOL and amounts due from banks on demand or with an original maturity of three months or less.

6.17 *Leases (Policy applicable before 1 January 2019)*

The determination of whether an arrangement is a lease, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or whether the arrangement conveys a right to use the asset.

Branch as a lessee

Leases that do not transfer to the Branch substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they it is incurred.

6.18 *Leases (Policy applicable as of 1 January 2019)*

The Branch assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

6.18.1 *Branch as a lessee*

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Branch recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 18 *Property, equipment and right-of-use assets* and are subject to impairment in line with the Branch's policy as described in Note 6.19 *Impairment of non-financial assets*.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.18 Leases (Policy applicable as of 1 January 2019) (continued)

6.18.1 Branch as a lease (continued)

Lease liabilities

At the commencement date of the lease, the Branch recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Branch and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

6.19 Property and equipment and right-of-use assets

Property and equipment is stated at cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. Right-of-use assets are presented together with property and equipment in the statement of financial position – refer to the accounting policy in Note 6.17. Right-of-use assets are depreciated on a straight-line basis over the lease term.

Depreciation is calculated using the straight-line method to write down the cost of property and equipment to their residual values over their estimated useful lives. The following are annual rates used:

Building improvements	5%
Furniture and fixtures	20%
Computer equipment	20%
Motor vehicles	20%

Property and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognized in 'Other operating income' in the income statement in the year the asset is derecognized.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.20 *Impairment of non-financial assets*

The Branch assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Branch estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit (CGU)'s fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Branch estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the income statement.

6.21 *Employee benefits*

Post-employment benefits

Post-employment benefits are paid to retired employees of the Branch by the Social Security Fund Department which belongs to the Ministry of Labor and Social Welfare. The Branch is required to contribute to these post-employment benefits by paying social insurance premium to the Social Insurance Agency at the rate of 6.00% of employee's basic salary on a monthly basis. The Branch has no further obligation concerning post-employment benefits for its employees other than this.

Termination benefits

In accordance with Article 82 of the Amended Labour Law No. 43/NA approved by the President of the Lao People's Democratic Republic on 28 January 2014, the Branch has the obligation to pay allowance for employees who are terminated by dismissal in the following cases:

- ▶ The worker lacks specialised skills or is not in good health and thus cannot continue to work;
- ▶ The employer considers it necessary to reduce the number of workers in order to improve the work within the labour unit.

For the termination of an employment contract on any of the above-mentioned grounds, the employer must pay a termination allowance which is calculated on the basis of 10% of the basic monthly salary earned before the termination of work. As at 31 December 2019, there is no employee of the Branch who was dismissed under the above-mentioned grounds; therefore the Branch has not made a provision for termination allowance in the financial statements.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.22 Provisions

Provisions are recognized when the Branch has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the Branch determines the level of provision by discounting the expected cash flows at a pre-tax rate reflecting the current rates specific to the liability. The expense relating to any provision is presented in the income statement net of any reimbursement in other operating expenses.

6.23 Profit tax

Current tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted, or substantively enacted, by the reporting date in the countries where the Branch operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it becomes probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current and deferred taxes are recognised as income tax benefits or expenses in the income statement except for tax related to the fair value remeasurement of available-for-sale assets, foreign exchange differences and the net movement on cash flow hedges, which are charged or credited to OCI. These exceptions are subsequently reclassified from OCI to the income statement together with the respective deferred loss or gain. The Branch also recognises the tax consequences of payments and issuing costs, related to financial instruments that are classified as equity, directly in equity.

The Branch only off-sets its deferred tax assets against liabilities when there is both a legal right to offset and it is the Branch's intention to settle on a net basis.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

6. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6.24 Standards issued but not yet effective

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Branch's financial statements.

7. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the Branch's financial statements requires management to make estimates and assumptions that affect the reported amount of revenues, expenses, assets and liabilities, and the accompanying disclosures, as well as the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

In the process of applying the Branch's accounting policies, management has made the following judgements and assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year. Existing circumstances and assumptions about future developments may change due to circumstances beyond the Branch's control and are reflected in the assumptions if and when they occur. Items with the most significant effect on the amounts recognised in the financial statements with substantial management judgement and/or estimates are collated below with respect to judgements/estimates involved.

7.1 Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets in scope requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The Branch's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- ▶ The Branch's internal credit grading model, which assigns PDs to the individual grades
- ▶ The Branch's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment
- ▶ The segmentation of financial assets when their ECL is assessed on a collective basis
- ▶ Development of ECL models, including the various formulas and the choice of inputs
- ▶ Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- ▶ Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

It has been the Branch's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

7. SIGNIFICANT ACCOUNTING ESTIMATES AND ASSUMPTIONS (continued)

7.2 *Going concern*

The Branch's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt on the Branch's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on the going concern basis.

7.3 *Fair value of financial instruments*

The fair value of financial instruments is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e., an exit price) regardless of whether that price is directly observable or estimated using another valuation technique. When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimation is required in establishing fair values. Judgements and estimates include considerations of liquidity and model inputs related to items such as credit risk (both own and counterparty), funding value adjustments, correlation and volatility. For further details about determination of fair value, please see Note 6.8 and Note 33.

7.4 *Effective Interest Rate (EIR) method*

The Branch's EIR methodology, as explained in Note 6.2.1, recognises interest income using a rate of return that represents the best estimate of a constant rate of return over the expected behavioural life of loans and deposits and recognises the effect of potentially different interest rates charged at various stages and other characteristics of the product life cycle (including prepayments and penalty interest and charges). This estimation, by nature, requires an element of judgement regarding the expected behaviour and life-cycle of the instruments, as well expected changes to other fee income/expense that are integral parts of the instrument.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

8. INTEREST AND SIMILAR INCOME

	2019 LAKm	2018 LAKm
<i>Interest revenue calculated using the effective interest method from:</i>		
Term deposits at Bank of the Lao PDR	11,337	8,811
Due from banks	12,225	12,650
Loans to customers	23,053	34,310
	46,615	55,771

9. INTEREST AND SIMILAR EXPENSES

	2019 LAKm	2018 LAKm
<i>Interest expense calculated using the effective interest method for:</i>		
Due to customers	89	73
Due to banks	22,940	23,117
Lease liabilities	4	-
	23,033	23,190

10. NET FEES AND COMMISSION INCOME

	2019 LAKm	2018 LAKm
Fees and commission income:		
Fee and commission income from providing financial services at a point in time:		
Trade finance activities	1,199	1,989
	1,199	1,989
Fees and commission expense for:		
Other activities	(172)	(145)
	(172)	(145)
Net fee and commission income	1,027	1,844

11. NET GAIN FROM DEALING IN FOREIGN CURRENCIES

	2019 LAKm	2018 LAKm
Gain from dealing in foreign currencies	660	521
Loss from dealing in foreign currencies	(207)	(33)
	453	488

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

12. CREDIT LOSS EXPENSE

The table below shows the ECL charges on financial instruments under IFRS 9 for the year ended 31 December 2019:

	Note	Stage 1 Individual LAKm	Stage 2 Individual LAKm	Stage 3 Individual LAKm	Total LAKm
Loans to customers	17	7,953	-	-	7,953
		7,953	-	-	7,953

The table below shows the ECL charges on financial instruments under IFRS 9 for the year ended 31 December 2018:

	Note	Stage 1 Individual LAKm	Stage 2 Individual LAKm	Stage 3 Individual LAKm	Total LAKm
Loans to customers	17	(692)	(96)	16,594	15,806
		(692)	(96)	16,594	15,806

13. PERSONNEL EXPENSES

	2019 LAKm	2018 LAKm
Wages and allowances	3,668	3,140
Other staff costs	1,724	1,829
	5,392	4,969

14. OTHER OPERATING EXPENSES

	2019 LAKm	2018 LAKm
Taxes and duties	385	90
Rental fees	1,467	1,595
Equipments	14	10
Electricity and water supply	103	93
Fuel	31	23
Office stationeries	21	35
Business trip expenses	165	183
Publication, marketing and promotion	248	400
Telecommunication	536	534
Management fee	306	584
Audit fee	189	187
Others	390	239
	3,855	3,973

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

15. CASH AND BALANCES WITH BANK OF THE LAO PDR (“the BOL”)

	31 December 2019 LAKm	31 December 2018 LAKm
Cash on hand	1,386	1,622
Balances with the BOL	464,937	205,270
- Demand deposit	10,527	23,116
- Term deposit (*)	452,485	180,059
- Compulsory deposits (**)	1,920	2,090
- Registered capital deposit (***)	5	5
	466,323	206,892

(*) The term deposit at the BOL is denominated in USD with term of 12 months and interest rate at 6.37% per annum.

(**) Under regulations of the BOL, the Branch is required to maintain certain cash reserves with the BOL in the form of compulsory deposits, which are computed at 5.00% for LAK and 10.00% for foreign currencies (2018: 5.00% and 10%), on a bi-monthly basis of customer deposits having original maturities of less than 12 months. During the year, the Branch maintained its compulsory deposits in compliance with the requirements of the BOL.

(***) According to Decree No. 02/PR of the BOL, foreign bank branches are required to maintain a minimum balance of special deposit at the BOL which is equivalent to 25% of their paid-up capital to secure for their operational continuance. The Branch was then approved by the BOL in Official Letter No. 30/BSD dated 23 January 2015 and Official Letter No. 64/BSD dated 24 February 2015 to withdraw from this deposit account to supplement its working capital.

The table below shows the credit quality and maximum exposure to credit risk based on the Branch’s internal credit rating system and stage classification. The amounts presented are gross of impairment allowances. Details of the Branch’s internal grading system are explained in Note 30.

	31 December 2019			31 December 2018	
	Stage 1 Individual LAKm	Stage 2 Individual LAKm	Stage 3 LAKm	Total LAKm	Total LAKm
Performing	464,937	-	-	464,937	205,270
Non-performing	-	-	-	-	-
	464,937	-	-	464,937	205,270

A reconciliation of changes in the gross carrying amount is as follows:

	Stage 1 Individual LAKm
Gross carrying amount as at 1 January 2019	205,270
New assets originated or purchased	443,050
Payments and assets derecognised	(192,818)
Accrued interest	9,435
As at 31 December 2019	464,937

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

16. DUE FROM BANKS

	<i>31 December 2019</i> <i>LAKm</i>	<i>31 December 2018</i> <i>LAKm</i>
Demand deposits at foreign banks	18,525	25,050
- Cathay United Bank Taiwan, Taipei	18,525	25,050
Term deposits at domestic banks	102,412	223,309
- RHB Bank Lao Limited	77,060	51,343
- VietinBank Lao Limited	25,352	-
- Banque Pour Le Commerce Exterieur Lao Public	-	171,966
	120,937	248,359

The term and interest rate of the term deposits are as follows:

<i>Bank</i>	<i>Term</i>	<i>Interest rate</i> <i>(%per annum)</i>
RHB Bank Lao Limited	12 months	4.90% - 5.00%
VietinBank Lao Limited	12 months	5.00%

The table below shows the credit quality and maximum exposure to credit risk based on the Branch's internal credit rating system and stage classification. The amounts presented are gross of impairment allowances. Details of the Branch's internal grading system are explained in Note 30.

	<i>31 December 2019</i>			<i>31 December 2018</i>	
	<i>Stage 1</i> <i>Individual</i> <i>LAKm</i>	<i>Stage 2</i> <i>Individual</i> <i>LAKm</i>	<i>Stage 3</i> <i>LAKm</i>	<i>Total</i> <i>LAKm</i>	<i>Total</i> <i>LAKm</i>
Performing	120,937	-	-	120,937	248,359
Non-performing	-	-	-	-	-
	120,937	-	-	120,937	248,359

A reconciliation of changes in the gross carrying amount is as follows:

	<i>Stage 1</i> <i>Individual</i> <i>LAKm</i>
Gross carrying amount as at 1 January 2019	248,359
New assets originated or purchased	100,000
Payments and assets derecognised	(229,834)
Accrued interest	2,412
As at 31 December 2019	120,937

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

17. LOANS TO CUSTOMERS

	<i>31 December 2019</i> <i>LAKm</i>	<i>31 December 2018</i> <i>LAKm</i>
Gross loans to customers	445,863	477,260
Less: Allowance for ECL	(10,838)	(2,786)
	435,025	474,474

Interest rates for loans to customers during the year are as follows:

	<i>2019</i> <i>Interest rates</i> <i>% per annum</i>	<i>2018</i> <i>Interest rate</i> <i>% per annum</i>
Loans denominated in LAK	NA	5.89%
Loans denominated in USD	5.66%	6.11%

Analysis of loans to customers

Analysis by currency

	<i>31 December 2019</i> <i>LAKm</i>	<i>31 December 2018</i> <i>LAKm</i>
Loans denominated in LAK	-	41,731
Loans denominated in USD	445,863	435,529
	445,863	477,260

Analysis by original term

	<i>31/12/2019</i> <i>LAKm</i>	<i>31/12/2018</i> <i>LAKm</i>
Short-term loans	-	41,731
Medium-term loans	445,863	435,529
	445,863	477,260

Analysis by economic sectors

	<i>31 December 2019</i> <i>LAKm</i>	<i>31 December 2018</i> <i>LAKm</i>
Industrial	-	2,647
Transportation	-	39,084
Government organisations	445,863	435,529
	445,863	477,260

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

17. LOANS TO CUSTOMERS (continued)

Impairment allowance for loans to customers

The table below shows the credit quality and maximum exposure to credit risk based on the Branch's internal credit rating system and stage classification. The amounts presented are gross of allowances for ECL. Details of the Branch's internal grading system are explained in Note 28.

	31 December 2019			31 December 2018	
	Stage 1 Individual LAKm	Stage 2 Individual LAKm	Stage 3 LAKm	Total LAKm	Total LAKm
Performing	445,863	-	-	445,863	477,260
Non-performing	-	-	-	-	-
	445,863	-	-	445,863	477,260

A reconciliation of changes in the gross carrying amount is as follows:

	Stage 1 Individual LAKm	Stage 2 Individual LAKm	Stage 3 Individual LAKm	Total
Gross carrying amount as at 1 January 2019	477,260	-	-	477,260
New assets originated or purchased	-	-	-	-
Payments and assets derecognised	(31,397)	-	-	(31,397)
As at 31 December 2019	445,863	-	-	445,863

A reconciliation of changes in the corresponding ECL allowances is as follows:

	Stage 1 Individual LAKm	Stage 2 Individual LAKm	Stage 3 Individual LAKm	Total
ECL allowance as at 1 January 2019	2,786	-	-	2,786
New assets originated or purchased	-	-	-	-
Changes to inputs used for ECL calculations	7,953	-	-	7,953
Foreign exchange adjustments	99	-	-	99
As at 31 December 2019	10,838	-	-	10,838

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

18. PROPERTY AND EQUIPMENT AND RIGHT-OF-USE ASSETS

Movements of property and equipment for the ended 31 December 2019 are as follows:

	Office equipme- nt LAKm	Furniture & fixtures LAKm	Building improve- ments LAKm	Other LAKm	Right-of-use assets			Total LAKm
					Building LAKm	Cars LAKm	Total right- of-use assets LAKm	
Cost:								
As at 31 December 2018	4,443	305	1,474	3,340	-	-	-	9,562
Additions in 2019	73	-	-	-	2,339	1,554	3,893	3,966
As at 31 December 2019	4,516	305	1,474	3,340	2,339	1,554	3,893	13,528
Accumulated depreciation:								
As at 31 December 2018	2,840	244	1,186	2,683	-	-	-	6,953
Charge for the year 2019	893	60	288	626	195	25	220	2,087
As at 31 December 2019	3,733	304	1,474	3,309	195	25	220	9,040
Net book value:								
As at 31 December 2018	1,603	61	288	657	-	-	-	2,609
As at 31 December 2019	783	1	-	31	2,144	1,529	3,673	4,488

Movements of property and equipment for the ended 31 December 2018 are as follows:

	Office equipment LAKm	Furniture & fixtures LAKm	Building improvements LAKm	Other LAKm	Total LAKm
Cost:					
As at 31 December 2017	3,566	305	1,474	3,312	8,657
Additions in 2018	877	-	-	28	905
Others	-	-	-	-	-
As at 31 December 2018	4,443	305	1,474	3,340	9,562
Accumulated depreciation:					
As at 31 December 2017	2,076	182	887	1,996	5,141
Charge for the year 2018	764	62	299	687	1,812
As at 31 December 2018	2,840	244	1,186	2,683	6,953
Net book value:					
As at 31 December 2017	1,490	123	587	1,316	3,516
As at 31 December 2018	1,603	61	288	657	2,609

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

19. OTHER ASSETS

	<i>31 December 2019</i>	<i>31 December 2018</i>
	<i>LAKm</i>	<i>LAKm</i>
Profit tax payment in advance (Note 22.2)	2,666	1,812
Prepaid expenses	175	468
Accrued Income	1,164	884
Other assets	138	70
	4,143	3,234

20. DUE TO BANKS

	<i>31 December 2019</i>	<i>31 December 2018</i>
	<i>LAKm</i>	<i>LAKm</i>
Borrowings from Cathay United Bank Taiwan, Taipei	886,100	770,084
Accrued interest payable	4,138	12,145
	890,238	782,229

Details of the borrowings as at 31 December 2019 are as follows:

<i>Currency</i>	<i>Term</i>	<i>Balance in original currency</i>	<i>LAKm equivalent</i>	<i>Interest rate % per annum</i>
USD	12 months	50,000,000	443,050	2.33%
USD	12 months	30,000,000	265,830	2.58%
USD	12 months	20,000,000	177,220	2.37%
		100,000,000	886,100	

21. DUE TO CUSTOMERS

	<i>31 December 2019</i>	<i>31 December 2018</i>
	<i>LAKm</i>	<i>LAKm</i>
Saving deposits		
Saving deposits in LAK	70	507
Saving deposits in FC	17,860	19,658
Fixed deposits		
Fixed deposits in FC	270	-
	18,200	20,165

The interest rates for these deposits are as follows:

	<i>2019 LAKm Interest rate p.a.</i>
Saving deposits in LAK	1.89%
Saving deposits in USD	2.50%
Saving deposits in THB	0.08% - 0.50%
Short-term deposits in USD	2.75% - 3.50%

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

22. TAXATION

22.1 Personal income tax

	31 December 2019 LAKm	31 December 2018 LAKm
Personal Income Tax payable	45	48

22.2 Profit Tax ("PT")

The Branch is obliged to pay PT at rate of 24% on total profit before tax of the year in accordance with Tax Law No.70/NA dated 15 December 2015 which is effective on or after 24 May 2016.

	2019 LAKm	2018 LAKm
Profit before tax under IFRS	5,775	8,353
Adjustment for difference between LAS and IFRS	12,997	13,167
Taxable profit under LAS	18,772	21,520
Current PT expense, at the statutory rate of 24%	4,505	5,165
PT paid in advance at the beginning of the year	(1,812)	(3,202)
PT paid during the year	(5,359)	(3,775)
PT paid in advance at the end of the year	(2,666)	(1,812)

The Branch's tax returns are subject to examination by the tax authorities. Because the application of tax laws and regulations in many types of transactions is susceptible to varying interpretations, amounts reported in the financial statements could be changed at a later date upon final determination by the tax authorities.

23. OTHER LIABILITIES

	31/12/2019 LAKm	31/12/2018 LAKm
Deferred revenue	120	30
Payables to employees	856	857
Payable to external creditors	247	239
Lease liability	1,529	-
	2,752	1,126

24. PAID-UP CAPITAL

The movement of paid-up capital during the year is presented below:

	2019 LAKm	2018 LAKm
Opening balance	105,183	105,183
Closing balance	105,183	105,183

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

25. ADDITIONAL CASH FLOW INFORMATION

Cash and cash equivalents

	<i>31 December 2019</i> <i>LAKm</i>	<i>31 December 2018</i> <i>LAKm</i>
Cash on hand	1,386	1,622
Current accounts with the BOL	10,527	23,116
Current accounts with other banks	18,525	25,050
	30,438	49,788

26. RELATED PARTY TRANSACTIONS

Related party transactions include all transactions undertaken with other parties to which the Branch is related. A party is related to the Branch if:

- (a) directly, or indirectly through one or more intermediaries, the party:
 - ▶ controls, is controlled by, or is under common control with, the Branch (this includes parents, subsidiaries and fellow subsidiaries);
 - ▶ has an interest in the Branch that gives it significant influence over the Branch; or
 - ▶ has joint control over the Branch.
- (b) the party is a joint venture in which the Branch is a venture;
- (c) the party is a member of the key management personnel of the Branch or its parent;
- (d) the party is a close member of the family of any individual referred to in (a) or (d);
- (e) the party is an entity that is controlled, jointly controlled or significantly influenced by, or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or
- (f) the party is a post-employment benefit plan for the benefit of employees of the Branch, or of any entity that is a related party of the Branch.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

26. RELATED PARTY TRANSACTIONS (continued)

Balances with related parties as at 31 December 2019 and 31 December 2018 are as follows:

<i>Related party</i>	<i>Relationship</i>	<i>Transactions</i>	<i>31 December 2019 Receivable/ (payable) LAKm</i>	<i>31 December 2018 Receivable/ (payable) LAKm</i>
Cathay United Bank Taiwan, Taipei	Parent Bank	Demand deposits at the parent bank	18,525	25,050
		Borrowing from the parent bank	886,100	770,084

Significant transactions with related parties during the year ended 31 December 2019 were as follows:

<i>Related party</i>	<i>Relationship</i>	<i>Transactions during the year</i>	<i>Receipt/ (payment) LAKm</i>	<i>Income/ (expense) LAKm</i>
Cathay United Bank Taiwan, Taipei	Parent Bank	Withdrawal of demand deposits	6,525	-
		Receipt of borrowings	(116,016)	(22,940)

Transactions with key management personnel of the Branch

Remuneration to members of the Management is as follows:

	<i>2019 LAKm</i>	<i>2018 LAKm</i>
Salaries	810	1,171
	810	1,171

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

27. RISK MANAGEMENT POLICIES

Introduction

Risk is inherent in the Branch's activities and is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Branch's continuing profitability and each individual within the Branch is accountable for the risk exposures relating to his or her responsibilities.

The Branch is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into trading and non-trading risks. It is also subject to various operating risks.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. The Branch's policy is to monitor those business risks through the Branch's strategic planning process.

Risk management structure

The Management is responsible for the overall risk management approach and for approving the risk management strategies and principles.

The Management has appointed the Risk - Compliance Officer which has the responsibility to monitor the overall risk process within the Branch.

The Risk - Compliance Officer has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits. The Risk – Compliance Officer is responsible for managing risk decisions and monitoring risk levels and reports to the Board of Management.

The Branch follows Head Office's risk management policy and risk management processes throughout the Branch are audited annually by the Internal Audit function of Cathay United Bank, which examines both the adequacy of the procedures and the Branch's compliance with the procedures. Internal Audit discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee of Cathay United Bank.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

28. CREDIT RISK

Credit risk is the risk that the Branch incurs a loss because its customers or counterparties fail to discharge their contractual obligations. The Branch manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

The Branch has established credit quality review processes to provide early identification of possible changes in the creditworthiness of counterparties. Counterparty limits are established through the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to monthly revision. The credit quality review process aims to allow the Branch to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

28.1 *Credit-related commitments risks*

The Branch makes available to its customers guarantees that may require that the Branch make payments on their behalf and enter into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees commit the Branch to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Branch to similar risks to loans and are mitigated by the same control processes and policies.

28.2 *Impairment assessment*

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the *Summary of significant accounting policies*.

28.2.1 *Definition of default, impaired and cure*

The Branch considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations in all cases when the borrower becomes 90 days past due on its contractual payments.

As a part of a qualitative assessment of whether a customer is in default, the Branch considers a variety of instances that may indicate unlikelihood to pay. When such events occur, the Branch carefully consider whether the event should result in treating the customer as defaulted and therefore assessed as Stage 3 for ECL calculations or whether Stage 2 is appropriate. Such events include:

- ▶ Internal rating of the borrower indicating default or near-default;
- ▶ The borrower requesting emergency funding from the Branch;
- ▶ The borrower having past due liabilities to public creditors or employees;
- ▶ The borrower is deceased;
- ▶ A material decrease in the underlying collateral value where the recovery of the loan is expected from the sale of the collateral;
- ▶ A material decrease in the borrower's turnover or the loss of a major customer;
- ▶ A covenant breach not waived by the Branch;
- ▶ The debtor (or any legal entity within the debtor's group) filing for bankruptcy application/protection;
- ▶ Debtor's listed debt or equity suspended at the primary exchange because of rumours or facts about financial difficulties.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

28. CREDIT RISK (continued)

28.2 *Impairment assessment (continued)*

28.2.1 *Definition of default, impaired and cure (continued)*

It is the Branch's policy to consider a financial instrument as "cured" and therefore re-classified out of Stage 3 when none of the default criteria have been present for at least one month for short term debts or three consecutive months for middle and long-term debts since the day begins full repayment of the overdue principals and interests. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated credit grade, at the time of the cure, and whether this indicates there has been a significant increase in credit risk compared to initial recognition.

28.2.2 *The Branch's internal rating and probability of default estimation process*

The Branch operates its internal rating models which incorporate both qualitative and quantitative information and, in addition to information specific to the borrower, utilise supplemental external information that could affect the borrower's behaviour. These information sources are first used to determine the PDs within the Branch's Basel II framework. The internal credit grades are assigned based on these Basel II grades. PDs are then adjusted for IFRS 9 ECL calculations to incorporate forward looking information and the IFRS 9 Stage classification of the exposure. This is repeated for each economic scenario as appropriate.

Treasury, trading and interbank relationships

The Branch's treasury, trading and interbank relationships and counterparties comprise financial services institutions, banks, broker-dealers, exchanges and clearing-houses. For these relationships, the Branch's credit risk department analyses publicly available information such as financial information and other external data, e.g., the rating of Moody's, S&P, Fitch, and assigns the internal rating.

Corporate lending

For corporate loans, the borrowers are assessed by specialised credit risk employees of the Branch. The credit risk assessment is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- ▶ Historical financial information together with forecasts and budgets prepared by the client. This financial information includes realised and expected results, solvency ratios, liquidity ratios and any other relevant ratios to measure the client's financial performance. Some of these indicators are captured in covenants with the clients and are, therefore, measured with greater attention.
- ▶ Any publicly available information on the clients from external parties. This includes external rating grades issued by rating agencies, independent analyst reports or press releases and articles.
- ▶ Any macro-economic or geopolitical information, e.g., GDP growth relevant for the specific industry and geographical segments where the client operates.
- ▶ Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The complexity and granularity of the rating techniques varies based on the exposure of the Branch and the complexity and size of the customer.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

28. CREDIT RISK (continued)

28.2 *Impairment assessment (continued)*

28.2.3 *Exposure at default*

The exposure at default (EAD) represents the gross carrying amount of the financial instruments subject to the impairment calculation, addressing both the client's ability to increase its exposure while approaching default and potential early repayments too.

To calculate the EAD for a Stage 1 loan, the Branch assesses the possible default events within 12 months for the calculation of the 12mECL. However, if a Stage 1 loan that is expected to default in the 12 months from the balance sheet date and is also expected to cure and subsequently default again, then all linked default events are taken into account. For Stage 2, Stage 3 and POCI financial assets, the exposure at default is considered for events over the lifetime of the instruments.

The Branch determines EADs by modelling the range of possible exposure outcomes at various points in time, corresponding the multiple scenarios. The IFRS 9 PDs are then assigned to each economic scenario based on the outcome of Branch's models.

28.2.4 *Loss given default*

For corporate and investment banking financial instruments, LGD values are assessed periodically by account managers and reviewed and approved by the Branch's specialised credit risk department. The credit risk assessment is based on a standardised LGD assessment framework that results in a certain LGD rate. These LGD rates take into account the expected EAD in comparison to the amount expected to be recovered or realised from any collateral held.

Further recent data and forward-looking economic scenarios are used in order to determine the IFRS 9 LGD rate for each group of financial instruments. When assessing forward-looking information, the expectation is based on multiple scenarios. Examples of key inputs involve changes in, collateral values including property prices for mortgages, commodity prices, payment status or other factors that are indicative of losses in the group. The Branch estimates regulatory and IFRS 9 LGDs on a different basis. Under IFRS 9, LGD rates are estimated for the Stage 1, Stage 2, Stage 3 and POCI IFRS 9 segment of each asset class. The inputs for these LGD rates are estimated and, where possible, calibrated through back testing against recent recoveries. These are repeated for each economic scenario as appropriate.

28.2.5 *Significant increase in credit risk*

The Branch continuously monitors all assets subject to ECLs. In order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Branch assesses whether there has been a significant increase in credit risk since initial recognition. The Branch considers an exposure to have significantly increased in credit risk when the IFRS 9 lifetime PD has doubled since initial recognition and has increased by more than 20 bps a year.

The Branch also applies a secondary qualitative method for triggering a significant increase in credit risk for an asset, such as moving a customer/facility to the watch list, or the account becoming forborne. In certain cases, the Branch may also consider that events explained in Note 28.2.5 are a significant increase in credit risk as opposed to a default. Regardless of the change in credit grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

29. INTEREST RATE RISK

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. Management has established limits on the non-trading interest rate gaps for stipulated periods. The Branch's policy is to monitor positions on a daily basis.

The sensitivity of the income statement is the effect of the assumed changes in interest rates on the profit or loss for a year, based on the floating rate non-trading financial assets and financial liabilities held at 31 December 2019. The total sensitivity of equity is based on the assumption that there are parallel shifts in the yield curve.

The classification of financial assets and financial liabilities based on the interest rate re-pricing as at 31 December 2019 was as follows:

	Non-re- pricing	Up to 1 month	1 - 3 months	3 - 6 months	6 - 12 months	1 - 5 years	Over 5 years	Total
Financial assets								
Cash and cash equivalents on hand	1,386	-	-	-	-	-	-	1,386
Balances with Bank of the Lao PDR	21,887	-	443,050	-	-	-	-	464,937
Due from banks	2,412	18,525	-	-	100,000	-	-	120,937
Loans to customers (*)	2,813	-	443,050	-	-	-	-	445,863
Other financial assets	1,301	-	-	-	-	-	-	1,301
Total financial assets	29,799	18,525	886,100	-	100,000	-	-	1,034,424
Financial liabilities								
Due to banks	4,138	-	443,050	443,050	-	-	-	890,238
Due to customers	9	17,925	-	266	-	-	-	18,200
Other financial liabilities	2,752	-	-	-	-	-	-	2,752
Total financial liabilities	6,899	17,925	443,050	443,316	-	-	-	911,190
Net interest rate exposure	22,900	600	443,050	(443,316)	100,000	-	-	123,234

(*) These do not include provision and unrealized gain.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

29. INTEREST RATE RISK (continued)

Interest rate risk sensitivity analysis

The following table demonstrates the sensitivity to a reasonably possible change in interest rates in 1 year, with all other variables held constant, of the Branch's income statement:

	2019		2018	
	<i>Impact on profit before tax</i>		<i>Impact on profit before tax</i>	
	<i>Interest rate increase 10 percentage point</i>	<i>Interest rate increase 10 percentage point</i>	<i>Interest rate increase 10 percentage point</i>	<i>Interest rate decrease 10 percentage point</i>
Assets	19,897	(19,897)	18,661	(18,682)
Liabilities	(16,294)	16,294	(38,766)	38,766
Total	3,603	(3,603)	(20,105)	20,084

Unit: LAKm

30. CURRENCY RISK

Currency risk is the risk exposed to the Branch due to changes in foreign exchange rates which adversely impact the Branch's foreign currency positions. The Branch has set limits on positions by currency, based on its internal risk assessment system and the BOL's regulations. Positions are monitored on a daily basis to ensure positions are maintained within the established limits.

Breakdown of assets and liabilities which has been converted into LAKm 31 December 2019 is as follows:

	<i>LAK in LAKm</i>	<i>USD in LAKm equivalent</i>	<i>THB in LAKm equivalent</i>	<i>Total in LAKm equivalent</i>
ASSETS				
Cash and balances with the BOL	2,705	463,344	274	466,323
Due from banks	102,412	18,525	-	120,937
Loans to customers (*)	-	445,863	-	445,863
Property and equipment	815	-	-	815
Other assets	1,949	2,194	-	4,143
TOTAL ASSETS	107,881	929,926	274	1,038,081
LIABILITIES AND EQUITY				
LIABILITIES				
Due to Banks	-	890,238	-	890,238
Due to customers	70	18,021	109	18,200
Current tax liabilities	45	-	-	45
Other liabilities	2,752	-	-	2,752
TOTAL LIABILITIES	2,867	908,259	109	911,235
EQUITY	119,688	-	-	119,688
TOTAL LIABILITIES AND EQUITY	122,555	908,259	109	1,030,923
NET EXPOSURE	(14,674)	21,667	165	7,158

(*) These do not include provision and unrealized gain.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

30. CURRENCY RISK (continued)

Currency risk sensitivity analysis

The table below indicates the currencies to which the Branch had significant exposure at 31 December on its monetary assets and liabilities and its forecast cash flows. The analysis calculates the effect of a reasonably possible movement of the exchange rate against the Lao Kip, with all other variables held constant, on the income statement (due to the fair value of currency sensitive monetary assets and liabilities). A negative amount in the table reflects a potential net reduction in the income statement, while a positive amount reflects a net potential increase.

Unit: LAKm

	2019		2018	
	<i>Impact on profit before tax</i>		<i>Impact on profit before tax</i>	
	<i>Exchange rate increase 10%</i>	<i>Exchange rate decrease 10%</i>	<i>Exchange rate increase 10%</i>	<i>Exchange rate decrease 10%</i>
USD	2,167	(2,167)	2,798	(2,798)
THB	16	(16)	1	(1)
Total	2,183	(2,183)	2,799	(2,799)

31. LIQUIDITY RISK

Liquidity risk is defined as the risk that the Branch will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises because of the possibility that the Branch might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. To limit this risk, management has arranged for diversified funding sources in addition to its core deposit base, and adopted a policy of managing assets with liquidity in mind and monitoring future cash flows and liquidity on a daily basis. The Branch has developed internal control processes and contingency plans for managing liquidity risk. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The following assumptions and conditions are applied in the liquidity risk analysis of the Branch's financial assets and liabilities:

- ▶ Deposits at the BOL are classified as demand deposits which include compulsory deposits. The balance of compulsory deposits depends on the proportion and terms of the Branch's customer deposits.
- ▶ The maturity terms of placements with and loans to other banks; and loans to customers are determined on the maturity dates as stipulated in contracts. The actual maturity terms may be altered because loan contracts may be extended.
- ▶ The maturity terms of deposits from other banks; and customer's deposits are determined based on features of these items or the maturity date as stipulated in contracts. Demand deposits are transacted as required by customers and therefore being classified as current accounts. The maturity terms of deposits are determined based on the maturity dates in contracts. In fact, these amounts may be rotated and therefore may last beyond the original maturity date.
- ▶ The maturity terms of other liabilities are determined based on the actual maturity term of each other liability.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

31. LIQUIDITY RISK (continue)

The classification of financial assets and financial liabilities based on contractual maturities as at 31 December 2019 was as follows:

	Overdue		Before due date				Total
	Under 3 months	Over 3 months	Up to 1 month	1 to 3 months	3 to 12 months	Over 5 years	
Financial assets							
Cash and cash equivalents on hand	-	-	1,386	-	-	-	1,386
Balances with Bank of the Lao PDR	-	-	21,887	443,050	-	-	464,937
Due from banks	-	-	20,937	-	100,000	-	120,937
Loans and advances to customers (*)	-	-	2,813	443,050	-	-	445,863
Other financial assets	-	-	1,301	-	-	-	1,301
Total financial assets	-	-	48,324	886,100	100,000	-	1,034,424
Financial liabilities							
Due to banks	-	-	4,138	443,050	443,050	-	890,238
Due to customers	-	-	18,200	-	-	-	18,200
Other financial liabilities	-	-	2,752	-	-	-	2,752
Total financial liabilities	-	-	25,090	443,050	443,050	-	911,190
Liquidity exposure	-	-	23,234	443,050	(343,050)	-	123,234

(*) These do not include provision and unrealized gain.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
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32. CAPITAL MANAGEMENT

The Branch maintains minimum regulatory capital in accordance with Regulation No. 536/BFSD/BOL dated 14 October 2009 on commercial banks' capital adequacy and other detailed guidance. The primary objectives of the Branch's capital management are to ensure that the Branch complies with externally imposed capital requirements by the BOL. The Branch recognizes the need to maintain effectiveness of assets and liabilities management to balance profit and capital adequacy.

In accordance with Regulation No. 536/BFSD/BOL, the Branch's regulatory capital is analyzed into two tiers:

- ▶ Tier 1 capital, which includes chartered capital, regulatory reserve fund, business expansion fund and other funds, and retained earnings;
- ▶ Tier 2 capital, which includes qualifying subordinated liabilities, general provisions and the element of fair value reserve relating to unrealized gains/losses on equity instruments classified as available for sale.

Various limits are applied to elements of the capital base: qualifying tier 2 cannot exceed tier 1 capital, and qualifying subordinated liabilities may not exceed 50 percent of tier 1 capital.

An analysis of the Branch's capital based on financial information deprived from IFRS financial statements is as follows:

<i>Items</i>	<i>31 December 2019 under IFRS LAKm</i>	<i>31 December 2018 under IFRS LAKm</i>
Tier 1 capital	127,845	127,176
Tier 2 capital	-	-
Total capital	127,845	127,176
Less: Deductions from capital (Investments in other credit and financial institutions)	-	-
Capital for CAR calculation (A)	127,845	127,176
Risk weighted balance sheet items	244,912	291,360
Risk weighted off balance sheet items	6,124	6,007
Total risk weighted assets (B)	251,036	297,367
Capital Adequacy Ratio (A/B)	51%	43%

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Determination of fair value and fair value hierarchy

The Branch uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted prices/(unadjusted) in active markets for identical assets or liabilities.

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

Fair value of financial assets and liabilities carried at fair value

The Branch has no financial assets and liabilities carried at fair value as at 31 December 2019. Therefore, there is no analysis of financial instruments recorded at fair value by level of the fair value hierarchy.

Fair value of financial assets and liabilities not carried at fair value

The Branch uses the following methodologies and assumptions to determine fair value for financial assets and liabilities not carried at fair value on the financial statements:

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short-term maturity (less than one year) it is assumed that the carrying amounts approximate to their fair value. This assumption is also applied to demand deposits.

Fixed rate financial instruments

The fair value is determined using discounted cash flows using interest at year end of financial instruments in the market with similar risk and maturity. In addition, the Branch assumes that loans to customers are held to maturity. Fair values of loans to customers are determined as the carrying value less impairment losses. For Due to customers, fair value is approximated based on the carrying value of deposits, except for the fair value of fixed rate items with remaining maturity period greater than 1 year which is calculated based on the present value of future cash flows of principal and interest, discounted at interest rates currently being offered on such deposits.

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

33. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (continued)

Set out below is a comparison, by class, of the carrying amounts and fair values of the Branch's financial instruments that are not carried at fair value in the financial statements:

As at 31 December 2019

	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Balances at the BOL	464,937	12,452	-	452,485	464,937
Due from banks	120,937	-	-	120,937	120,937
Loans to customers	445,863	-	-	445,863	445,863
	1,031,737	12,452	-	1,019,285	1,031,737
Financial liabilities					
Due to banks	890,238	-	-	890,238	890,238
Due to customers	18,200	-	-	18,200	18,200
	908,438	-	-	908,438	908,438

As at 31 December 2018

	Carrying value	Fair value			Total
		Level 1	Level 2	Level 3	
Financial assets					
Balances at the BOL	205,270	25,211	-	180,059	205,270
Due from banks	223,309	-	-	223,308	223,309
Loans to customers	477,260	-	-	477,260	477,260
	905,839	25,211	-	880,627	905,839
Financial liabilities					
Due to banks	782,229	-	-	782,229	782,229
Due to customers	20,165	-	-	20,165	20,165
	802,394	-	-	802,394	802,394

34. EXCHANGE RATES OF APPLICABLE FOREIGN CURRENCIES AGAINST LAK AT REPORTING DATE

	31 December 2019 LAK	31 December 2018 LAK
United State Dollar ("USD")	8,861	8,556
Thai baht ("THB")	298	264

Cathay United Bank, Vientiane Capital Branch

NOTES TO THE FINANCIAL STATEMENTS (continued)
as at and for the year ended 31 December 2019

35. EVENTS AFTER REPORTING DATE

There are no events after the reporting date that require disclosure in these financial statements.

Prepared by:



Ms. Bounphaphone Chounlamany
Accountant

Vientiane, Lao PDR

6 March 2020

Reviewed by:



Mr. Tsai Tu Heng
Branch Manager



